Rates of value added tax

2018/0005(CNS) - 09/12/2021 - Amended legislative proposal for reconsultation

The Council reached agreement on a proposal to update EU rules on value added tax (VAT) rates. The European Parliament is consulted again on the amended legislative proposal.

Updating of the list of goods in Annex III to the directive

The Council's draft updates and modernises the list of goods and services for which reduced VAT rates are allowed (annex III of the VAT directive), taking into account the current needs of Member States and the EU's current policy objectives, in particular in the areas of health, the environment and the digital transition.

Equal treatment, flexibility

The update of the list was motivated by a number of principles, such as the benefit of the final consumer and the general interest. It also ensures that Member States are treated equally and gives them more flexibility to apply reduced and zero VAT rates.

To achieve this, the existing derogations which allowed some Member States to apply preferential rates for certain products have been opened up to all Member States, provided that they are compatible with the agreed principles.

Such equal treatment can be achieved by enabling all Member States to apply to the eligible goods and services, within defined limits, a maximum of two reduced rates of a minimum of 5 %, a reduced rate lower than the minimum of 5 % and an exemption with the right to deduct input VAT.

However, to avoid a proliferation of reduced rates, the Council decided to limit the number of items to which reduced rates could be applied.

Resilience of health systems

In order to allow Member States to apply reduced rates to strengthen the resilience of their health systems, it is proposed to broaden the scope of goods and services considered essential to support the provision of health care and to compensate for and overcome disability.

The revised Annex III now includes (i) pharmaceutical products used for medical and veterinary purposes, including products used for contraception and female sanitary protection; (ii) medical protective equipment, including health protection masks, intended for use in health care or for use by the disabled.

In addition, a new provision in the VAT Directive has also been added to deal with possible future crises and to allow Member States to react quickly to exceptional circumstances, such as pandemics, humanitarian crises or natural disasters.

Contributing to a green and climate neutral economy

Member states should have the possibility to apply reduced rates to environmentally friendly supplies, while preparing for the phasing out of the existing preferential treatment for environmentally harmful products.

The Council agreed to phase out reduced VAT rates or exemptions on **fossil fuels** and other goods with a similar impact on greenhouse gas emissions by 1 January 2030. Reduced rates and exemptions for **chemical fertilisers and chemical pesticides** will end by 1 January 2032, to give small farmers more time to adapt.

In addition, the Council has introduced environmentally friendly goods and services for which reduced rates are allowed, such as solar panels, electric bicycles and waste treatment and recycling services.

In order to support the transition to the use of **environmentally friendly heating systems**, the possibility for Member States to apply a reduced rate to the supply and installation of high-efficiency, low-emission heating systems that meet the criteria of environmental legislation was also added to Annex III.

Digital transition

In order to address poor coverage of **internet access services** and to promote their development, Member States should be able to apply a reduced rate to such services. The application of a reduced rate to internet access services should be tailored to the objectives set out in the national digitalisation policy and accordingly limited in scope.

Furthermore, in view of the digital transformation of the economy, it should be possible for Member States to provide for the same treatment of live-streamed activities, including events, as those which, when attended in person, are eligible for reduced rates.

Social policy, culture

Directive 2006/112/EC is amended to allow the application of reduced rates for specific social policy purposes, to ensure clarity and to take account of the principle of neutrality, in this case by ensuring the same treatment, as regards VAT rates, of the renting or leasing and supply of certain goods.

The revised Annex III includes:

- the supply and construction of housing, as part of social policy, as defined by the Member States

- the construction and renovation of public buildings and buildings used for activities of general interest;

- the supply of goods and services by organisations engaged in social welfare and social security work;

- legal services supplied to people under a work contract and unemployed people in labour court proceedings, and legal services supplied under the legal aid scheme.

Annex III also includes the right of admission to shows, theatres, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and cultural events and facilities.